Living up to the Busan Partnership for effective development co-operation? Assessing Government Financial Systems

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Abstract

Experience shows that when low and middle income country national administrative systems are bypassed aid has not been effective and sustainable (OECD, 2012) hence the start of the millennium saw a new concerted effort to improve aid effectiveness in reducing global poverty, improve human rights, democracy and the rule of law . In the five high level meetings in Rome (2003), Paris (2005), Accra (2008), Busan (2011) and Mexico (2014) three components for effective aid are recognised as co-ordination amongst development partners and governments, a government led reform agenda that uses country systems with aid disbursed via general budget support, and a shared information pool on public financial management (PFM) systems accepted and shared by all stakeholders. To achieve general budget support governments need to agree a PFM reform strategy aimed at reducing corruption, waste and inefficiency with funding and technical assistance from development partners. This paper is based on research carried for, and funded by the PEFA Secretariat to help develop guidance on the tools available for development partners and governments to assess the efficacy of country systems. The first stocktake in 2004 identified 11 diagnostic tools this has now increased to 45 used internationally. As the complexity and the number of tools increases, the potential for choosing the appropriate tools for a specific purpose increases, but so does the potential for omitting useful ones, poor sequencing of diagnostic assessments. The research aims to give the first central repository of diagnostic tools with guidelines on their se so governments and development partners are aware of the full range of tools available and to highlight the issues that need to be considered when choosing a diagnostic tool. Despite the aim to rationalise the tools since the 2010 stocktake an additional 12 tools are used. The PEFA assessment has become the development partner's broad diagnostic tool of choice with over 582 carried out since 2001. The other tools can be divided into drill down and complementary tools. If the use of the tools can be co-ordinated it can help in reducing transaction costs, limiting duplication of work minimising political and administrative resistance in Ministries from over assessment.

The typology recognised: Broad diagnostic tools covering all aspects of the PFM system (12); individual PFM sub-systems (24), and finally tools used by development partners to assess fiduciary risk (10). The expansion has focused on sub-systems increasing to 24, ten of which covering revenue administration, emphasizing the focus on minimising the tax gap (though tax evasion, avoidance and corruption). Most PFM sub-systems are now covered by specialized drill down tools. The tools increasing use performance indicators with an ordinal scale against specific performance criteria reflecting the move to quantitative performance measurement. This study aims to enhance harmonization and alignment of PFM assessments.

Key Words

Aid Effectiveness, PFM diagnostic tools

Introduction

Experience shows that when low and middle income country national administrative systems are bypassed aid has not been effective and sustainable hence one of the defining developments in aid effectiveness was the the endorsement of the "Busan Partnership for Effective Development Co-operation" (2011) by over 160 countries and around 50 other organisations, which agreed the default position was the use of country systems and the use of general budget support as the main modality for development aid, at that time the was a stocktake of diagnostic tools in use for assessing PFM systems. It was felt in 2016 that a new stocktake and assessment to see what progress had been made in the five years since Busan.

In 2015 the UK declared a commitment to move away from General Budget support (HM Treasury, 2015). raising concerns about the reliance on country systems. The ability to assess country systems therefore became even more important to consider the changes achieved since Busan.

Main Body

Experience shows that when low and middle income country national administrative systems are bypassed aid has not been effective and sustainable (OECD, 2011a).

There have been five high level meetings between the major development partners and Low and Middle income countries to agree arrangements to improve aid effectiveness, namely Rome (2003), Paris (2005), Accra (2008), Busan (2011) and Mexico (2014). This paper explores one of the key elements that was articulated in the Busan partnership for effective development co-operation, fourth high level forum on aid effectiveness that took place in Busan, Republic of Korea, 29 November-1 December 2011 (OECD 2011a), namely the item 19 (p5) "The use and strengthening of developing countries' systems remains central to our efforts to build effective institutions. We will build on our respective commitments set out in the Paris Declaration and Accra Agenda for Action to:

a) Use country systems as the default approach for development co-operation in support of activities managed by the public sector, working with and respecting the governance structures of both the provider of development co-operation and the developing country.

b) Assess jointly country systems using mutually agreed diagnostic tools. Based on the results of these assessments, providers of development co-operation will decide on the extent to which they can use country systems. Where the full use of country systems is not possible, the provider of development co-operation will state the reasons for non-use, and will discuss with government what would be required to move towards full use, including any necessary assistance or changes for the strengthening of systems. The use and strengthening of country systems should be placed within the overall context of national capacity development for sustainable outcomes"

Which itself builds on the Paris Declaration (2003) indicator 2 (alignment) that "Countries develop reliable national fiduciary systems or reform programmes to achieve them".

This apparently simple objective is the basic foundation to build trust and develop capacity in country systems to reduce corruption, improve fiscal discipline, and meet both allocative and operational efficiency in the delivery of public services.

In 2016 the PEFA Secretariat commissioned De Montfort University in the UK to carry out a study to provide an updated stock take of Public Financial Management (PFM) diagnostic tools and produce practical guidance on the use of the various diagnostic tools available for use by the various PFM stakeholders internationally. This paper is based on the outcomes of that research. The aim of this study was to assist stakeholders to identify the options available for assessing PFM systems, and developing potential reform plans to strengthen processes that are achievable and logically developed. The choice of which tools are most appropriate will be determined by the particular stakeholders as agreed at the Busan meeting.

In recognition of the crucial function performed by PFM, a range of instruments for diagnosis, guidance and advisory services have been developed to assist governments and development partners in understanding the state of a country's PFM arrangements. These tools will help stakeholders in discussing the priorities for improvement and how they should be achieved, and monitoring progress in achieving their respective goals. As part of the fourth High level forum on aid effectiveness held in Busan, Korea in November 2011, the Task Force on Public Financial Management published a stocktaking study of PFM diagnostic instruments OECD (2011b) . That study followed a 2004 study undertaken by the PEFA Secretariat which mapped the existing tools available to governments. As the PFM environment has become more complex the range and scope of tools developed has increased to meet the increasing needs. Some tools have been developed, some upgraded and some replaced, as discussed in this paper.

At the time of the Paris declaration (2003) there were 11 diagnostic tools evaluating PFM systems, by the time of Busan this had risen to 33. The aim expressed at Busan was to avoid duplication, and hence transaction costs to development partners by having mutually agreed diagnostic tools. By 2016 the number of tools had risen to 45.

PFM concerns national governments, civil society and donor organisations with each group developing tools suited to their own needs. Of the 45 diagnostic tools identified in the study seven 7 are donor tools used to carry out fiduciary risk assessments of the national governments, these are carried out as part of the donors risk assessment in provision of aid so for example the various major donors from the United States of America (USAID), the European Union (EU), UK (DfID) and international Financial institutions such as the World Bank (WB). With such a wide variety of tools and their coverage identifying appropriate tools to achieve efficacy in PFM reforms and improvements is a key challenge.

The Public Expenditure and Financial Accountability (PEFA) framework has evolved as the main and most widely used of these instruments. The Public Expenditure and Financial Accountability (PEFA) Program was founded in 2001 as a multi-donor partnership between seven donor agencies and international financial institutions. PEFA is expected to provide a basis for dialogue on PFM reform strategies and priorities as well as a pool of information that can contribute more broadly to research and analysis of PFM. Since 2001 PEFA has become the acknowledged standard for PFM assessments. By the end of 2016, 546 PEFA assessments had been undertaken or were in the pipeline in almost 150 countries, including almost 200 sub-national assessments[1].
1.6 As the ODI said in 2016:

> *The Public Expenditure and Financial Accountability (PEFA) framework has been hugely successful in harmonising approaches to public financial management (PFM) systems in developing countries, and remains the most comprehensive indicator of PFM to date.*

However, the research confirmed, most donors use the PEFA Framework in combination with their own fiduciary risk assessment tools.

Since Busan, there has been substantial growth in the range and sophistication of measures to assist governments and development partners in identifying, implementing and monitoring PFM reforms. The Study identified eleven (11) of have been developed since the last major stocktaking and launch of the 2011 PEFA update. This has been both a blessing and a curse because although it has increased the options available, it has also increased the potential level of confusion, duplication and complexity and risks the aim of harmonising and co-ordinating fiduciary assessment. It is difficult for users to know the full range of measures available, their different strengths and limitations, and which ones are most suitable for their specific needs.

Busan also called for the tools to be able to measure performance and progress over time and be country led. This required a new approach to the one off narrative assessments that had been developed up to Busan. It has meant some tools being substantially revised/updated, some being discontinued and new tools developed using a different approach. Some of the tools benchmark against international standards/principles, some provide a narrative assessment of the current systems, some developed based on principles of governance, some focus on sub-systems such as accounting or budgeting, others on the global performance such as PEFA.

In order to assess the progress the research has identified the basic characteristics of each diagnostic instrument. The study kept the broad typology of the Busan stocktake of:

(A) Broad diagnostic or analytical tools covering the whole of the PFM system,

(B) Tools focusing on individual PFM elements or institutions or sub-systems, and

(C) Tools used by donors in order to assess fiduciary risk.

But developed a new typology The PFM diagnostic tools further analysed according to the type of tool, as follows:

1. Reporting Systems:
    a. Scoring systems;
    b. Narrative evaluations.
2. Benchmark approaches:
    a. Standard based;
    b. Principles based.
3. Databases.

The level and/or the sector of government that the tools are designed to assess is then considered:

I. National;
II. Sub-national;
III. Sector.

At the time of writing a consultation document put out by the PEFA secretariat for comments had closed.

The PFM system is defined as the sum of all elements putting policy in practice to achieve the outcomes as efficiently and effectively as possible. The study incorporates PFM tools examining systemic aspects at national government, sub-national level or those relating to a specific sector context, as well as covering individual sub-systems within the PFM system.

That said, the boundaries of PFM are becoming increasingly blurred as the complexities of multi-agency delivery takes place involving government sectors, the private Sector, NGOs, Public Private Partnerships and the other modalities of delivering public services. These complexities involve increased threats to governments' financial stability caused by risks such as contingent liabilities held on behalf of the private sector (e.g. guarantees of bank deposits, trade guarantees), State Owned Enterprises' debt and long-term PPP contracts. The study therefore also includes tools covering aspects affecting modern PFM that whilst traditionally outside the scope of PFM carry risks that can threaten aggregate fiscal discipline.

The development of these diagnostics has been within a framework set out at Busan of commonly accepted tools by all the development partners and so duplication has been reduced. The assumption that reduced duplication and commonly accepted tools would lead to a reduction of assessment tools and the risk of over assessment has not proven correct. Paragraph 14 of the Busan Partnership stated

"Today's complex architecture for development co-operation has evolved from the North-South paradigm. Distinct from the traditional relationship between aid providers and recipients, developing nations and a number of emerging economies have become important providers of South-South development co-operation. They remain developing countries and still face poverty at home. As such, they remain eligible to benefit from development co-operation provided by others, yet they have increasingly taken upon themselves the responsibility to share experiences and co-operate with other developing countries. The Paris Declaration did not address the complexity of these new actors, while the Accra Agenda for Action recognised their importance and specificities. While North-South co-operation remains the main form of development co-operation, South-South co-operation continues to evolve, providing additional diversity of resources for development. At Busan, we now all form an integral part of a new and more inclusive development agenda, in which these actors participate on the basis of common goals, shared principles and differential commitments. On this same basis, we welcome the inclusion of civil society, the private sector and other actors."

With the greater use of the private sector, greater transparency and the involvement of civil society a new array of elements within the PFM system and complexity have emerged that need to be assessed and monitored. In addition to the PEFA Framework, there are a range of other broad diagnostic assessments which are utilized. The Study identified fifteen (15) currently used broad diagnostic tools. The following four other tools have ceased being used since the 2011 study, they have mainly been replaced by other tools:

- World Bank Country Financial Accountability Assessment (CFAA);
- Commonwealth Secretariat PFM Self-Assessment Toolkit (CPFM-SAT);
- EC Assessment Reports on Public Expenditure Management, Public Financial Management and External Audit (Prepared by SIGMA) – replaced by OECD/SIGMA Principles of Public Administration;
- Fiscal Transparency ROSC (IMF) – replaced by IMF Fiscal Transparency Evaluation.

So despite a significant increase in the total number of diagnostic tools the call at Busan for the use common of tools therefore appears to have been successful in reducing the total number of diagnostics in this category.

Although covering the broad PFM system the various tools focus on different aspects of the PFM system, or are intended for different purposes. The PEFA assessment, for example, examines the system performance with a scoring mechanism that is designed to be repeated every 3-4 years to establish changing strengths and weaknesses of the system, it does not explore the causes behind the performance. Other tools look at the causes of the performance, or examine the processes in detail focussing on different elements. The FTE, for example, carried out by the IMF focuses on transparency and its impact on performance, whereas the OBI is carried out by civil society and measures commitment to transparency and ability of society to hold the executive to account. The various tools are designed for specific purposes and there is no suggested hierarchy of tools.

Of the fifteen (15) identified tools, ten (10) are designed for examining national governments, three (3) for sub national government, and two (2) cover both national and sub-national government. Four (4) of these tools are also being used to cover sectors of government. The choice of the correct tool depends on the understanding of the purpose of the tools characteristics.

There is a vast array of tools that look at specific aspects of PFM in greater detail than the broad diagnostics; the study identified twenty three (23) tools in this category.

There are four ‘drill-down’ diagnostics that are designed to broadly follow the PEFA methodology by applying high-level performance indicators to a specific PFM element. These tools complement PEFA by examining the sub-systems in more detail. These tools are however stand-alone diagnostic tools with their own objectives and are not subsidiary to a PEFA assessment. These are the Debt Management Performance Assessment (DeMPA) the Methodology for Assessment of National Procurement Systems (MAPS) and the more recent Tax Administration Diagnostic Assessment Tool (TADAT) and Public Investment Management Assessment (PIMA) developed by the IMF.

The Busan partnership agreed to assess and monitor progress over time, and by having a “scoring” methodology meets that approach, although care has been taken that when better methodological approaches are developed they are not held back by the need for monitoring. For example countries that use the new 2016 PEFA framework will also report based on the 2012 framework, allowing an assessment of progress over time and a new baseline for the future.

Other toolkits have a more institutional focus (e.g. The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Model and the World Bank Toolkit for Improving State Enterprise Corporate Governance) or incorporate elements of diagnostic work into broader capacity building needs assessment (e.g. the Institute of Internal Auditors Capability Model). Several of the toolkits have been developed by professional associations that base the assessments on their technical and professional global expertise and NGOs (e.g. the Institute of Internal Auditors (IIA), the International Organization of Supreme Audit Institutions (INTOSAI) and the International Records Management Trust (IRMT)); others have been designed primarily as internal toolkits for use in the advisory work provided by International Financial Institutions.

Using complementary tools and databases at subsystem level can help governments to identify specific weaknesses in the subsystem and with the institutional/governance system. The complementary tools can focus on particular aspects such as transparency, efficiency and effectiveness. The findings from the diagnostic tools coupled with databases to allow comparisons with other countries or international standards provide a good basis to develop a better sequencing of reforms. The continuing improvement of existing tools and development of new tools should be co-ordinated so that any possible duplication is minimized.

The use of self-diagnostic tools may help governments highlight areas where donor assistance can be best utilised or where countries can strengthen their own systems.

Busan also identified a major requirement for countries to develop their own revenue as paragraph 28 of the partnership agreement stated.

"Aid is only part of the solution to development. It is now time to broaden our focus and attention from aid effectiveness to the challenges of effective development. This calls for a framework within which:

a) Development is driven by strong, sustainable and inclusive growth.

b) Governments' own revenues play a greater role in financing their development needs. In turn, governments are more accountable to their citizens for the development results they achieve."

The importance of tax revenues are reflected in the number of tools covering those areas. The danger is that importance may mean greater number of tools and increased overlap of their coverage. There are nine tools (including databases – see below) six (6) examining revenue/tax administration, including three (3) databases, two (2) tools examining in particular the extractive industries, and one on fiscal decentralization. This provides a broad wealth of complementary information and tools. The tools cover both policy and administration of taxation.

This compares starkly with the reporting of financial activities where there is only one tool for public sector financial reporting and that compares existing practices to international standards, and whilst the GAP analysis tool can identify the value added benefits of adopting international standards there is no tool that assesses the efficacy of the current system in meeting a country's accounting requirements.

A wide range of individual donors have developed tools to allow judgements on the use of country systems and other operational decisions reflecting the aid modalities, risk appetite and the requirements of their governments/institutions. A number of these tools are only required to be utilized if donors are providing or considering the provision of budget support or are in other ways to directly utilise country public finance management systems in the provision of their financial support. In these cases, the tools are used to demonstrate that the fiduciary risk associated with using the public finance management systems and processes of the host government is at an acceptable level. This is demonstrated by the quality of the country's public finance management systems.

In a survey for the fourth high level meeting in Busan, over a third of donors made use of harmonised tools like PEFA, and common World Bank tools. Two thirds used such tools in combination with their own tools often drill-down fiduciary assessments. The following table from the same report (4th High Level Forum on Aid Effectiveness, 2011,page 26) also indicates the widespread use of information from PEFA reports in assessments of public finance management by individual bilateral donors.

Table 1 Donor Assessments of PFM Sub-Systems for the use of Country Systems

Main PFM system	PFM subsystem	Issue assessed*	Only for budget support and basket funding**	PEFA used**
Budgeting	Budget classification	100%	Not asked	29%
	Budget formulation	100%	Not asked	23%
	Budget execution	100%	7%	29%
Treasury	Use of local and foreign currencies	71%	Not asked	Not asked
	Cash programming	92%	Not asked	33%
	Payments	92%	Not asked	33%
Accounting and reporting	Recording policies and procedures	93%	Not asked	31%
	Financial reports and statements	93%	7%	29%
Internal controls procedures	Scope and quality	93%	8%	31%
	Internal audit	93%	8%	31%
External oversight	Audit scope and reports	93%	8%	31%
	Legislative oversight	86%	17%	33%
IFMIS	Functionality, integration, and coverage of system	80%	8%	25%

* Of the total number of donors responding to the question
** Of the total number of donors that assess the subsystem

In many cases, the assessments by bilateral donors of the fiduciary risk presented by country public finance management systems may not be made public and the assessments may not be provided to public officials of the country concerned.

PFM diagnostic tools can be also seen in terms of their 'type', whether they are reporting tools, benchmarking tools or databases as discussed below.

Reporting Tools with a scoring system

Tools that have a clear scoring methodology carry benefits and weaknesses in developing and monitoring a reform strategy. The Study identified sixteen (16) such tools. The key benefits are that they are clearly understandable in measuring a country's system against a pre-determined set of benchmarks. This allows a comparison with the same country over time in the case of repeat assessments. The PEFA Framework, for example, provides a scoring system of A to D where A is the best score, and is designed for repeat assessments every 3-4 years. Other tools, for example, the Open Budget Survey, the World Bank Country Policy and Institutional Arrangements, and the more recent Tax Administration Diagnostic Assessment Tool also have scoring systems.

The danger is that there is too great a focus on the score rather than on the underlying functioning of the system (even where quality control procedures ensure that the scores are accurate and supported by evidence). The scores then take on the characteristics of performance measurement systems. Where the focus is on improving scores compared to previous assessments it may create perverse incentives in terms of providing information or manipulation of processes, as it becomes a measure of progress (rather than identifying variance to a benchmark in a system that has to be further examined) thereby creating a risk that improved scores become the objective. Such an approach may lead to a sub-optimal reform agenda and distort priorities. Annex 2 includes an indication of the quality assurance measures that are in place to ensure the accuracy of scores within a particular tool to assist in assessing the risk of scope of manipulation, but the measures cannot stop manipulation altogether.

Whilst these tools have detailed explanations of how the scores were allocated, which can be very valuable in designing the reform process, in most cases they do not provide an extensive level of information and details of the context necessary to decide on possible solutions to improving the PFM system. The PEFA Secretariat warns against PEFA reports being used as the core basis for designing reform programs. There are tools (discussed below) that provide a more detailed explanation of systems and sub-systems with possible recommendations through a narrative assessment.

Busan emphasised the need for a country led agenda and to this end the absence of suggested next steps can be helpful in a country led agenda as it does not prescribe action, or assign causes that can be used to attribute failings, fulfilling the role of diagnostics. Thereby allowing a range of possible responses to be considered and targeted to specific country contexts. The information provided to support and explain the scores is very valuable and rich in assisting the identification of the current position and assists the governments and donor community in assessing the next steps in the diagnostic process

Reporting Tools with a narrative evaluation – 1 (b)

The danger of scoring methodologies is that they are constrained by the scoring system limiting the ability to be nuanced, or consider aspects that are not covered in the benchmarks against which the scores are derived. The study identified twenty three (23) PFM tools which include narrative evaluations that can provide a full report of current practices. The diagnostics may also indicate where deficiencies lie, and where appropriate be prescriptive in suggesting a possible set of reforms (e.g. the World Bank Gap Analysis Framework for Comparing Public Sector Accounting and Auditing to International Standards). Again the tools can focus on different aspects of the systems and/or sub-systems.

Toolkits which have a more institutional focus (e.g. The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Model and the World Bank Toolkit for Improving State Enterprise Corporate Governance or incorporate elements of diagnostic work into broader capacity building needs assessment (e.g. the Institute of Internal Auditors Capability Model).

Tools that Benchmark against international Standards – 2 (a)

There has been a growing importance globally within the professional organisations across the world coming together to develop a set of recognised global standards for their particular discipline. These standards are set by professional bodies and are designed to give confidence in the quality and comparability of the information provided. By the nature of global professional they represent a range of possible solutions to an issue and are based on the needs of the harmonisation and international principles of professional bodies to meet the highest global standards and achieve a harmonisation of practices which means they are very technical in nature. A number of the tools compare country systems to international standards as set out by professional organizations such as IPSAS (International Public Sector Accounting Standards). It should be noted that these standards are constantly being updated as difficulties or problems appear and a solution is suggested and technical guidance issues. There are five (5) such tools: World Bank Gap Analysis Framework for comparing Public Sector Accounting and Auditing to International Standards; and diagnostic tools developed by professional bodies such as the Development Initiative /Capacity Building Needs Assessment of INTOSAI (International Organization of Supreme Audit Institutions); the Audit capability model of AFROSAI-E; the Internal Audit Capability Model (IA-CM) of the IIA (Institute of Internal Auditors); and the Extractive Industries Transparency Initiative (EITI).

Tools that benchmark against principles – 2 (b)

Sets of good governance principles are in many ways similar to the aims of international standards, however they operate at a different level. The ten (10) tools identified in the study are not technical or prescriptive but rather set out the principles needed to ensure good PFM systems. These are not technical or prescriptive but rather set out the broad principles needed to ensure good PFM systems work. For example, Global Initiative for Fiscal Transparency (GIFT) Principles on Financial Transparency gives ten (10) broad principles but does not indicate how they should be achieved. Benchmarking against those principles therefore simply identifies if the PFM system meets the principles of Fiscal Transparency.

We can summarize principles as being broad, high level approaches and standards as being detailed and more technical requirements.

Whilst benchmarking against international standards and the principles laid out by internationally recognised organisations have many similarities there are some important practical differences with significant implications.

When considering reform processes the principles can be set at an early stage and processes developed in accordance with the underlying principles throughout each stage of reform. When considering standards they are technical standards requiring a high degree of professional expertise and specific systems able to provide precise information. These tools therefore are more focussed on particular sub-systems and independent international professional bodies, and require more specialist Technical Assistance to set out the legal frameworks

Databases – 3

The Study identified five (5) diagnostic tools which take the form of databases of current practices. These include the OECD Budget Practices and Procedural Database and the USAID Collecting Taxes Database. Although the databases are not diagnostic tools as such they are a useful resource for governments to be able to examine the practices of other governments either globally or regionally. This resource can be used once the diagnostics and causes of weakness in systems have been identified and be a reference point in considering the reform agenda by examining processes other governments use, and their outcomes. It is important to see various methodologies used internationally to avoid the risk of trying to implement an “off the shelf” solution. It allows a range of options to be considered from similar countries and also of more developed countries.

Some of the databases, such as RA-FIT, use an analytical framework to capture the data for the database and provide both quantitative and qualitative information within those frameworks.

The table below presents the various relevant PFM diagnostic tools in relation to the seven pillars of PEFA:

Pillar I: Budget reliability
Pillar II: Transparency of public finances
Pillar III: Management of assets and liabilities
Pillar IV: Policy-based fiscal strategy and budgeting
Pillar V: Predictability and control in budget execution

Pillar VI: Accounting and reporting
Pillar VII: External scrutiny and audit

Table 2 PFM Tools[2] in relation to the 7 PEFA Pillars

PEFA PILLAR	DRILL-DOWN TOOLS	COMPLEMENTARY TOOLS	OTHER TOOLS
I: Budget reliability		World Bank Public Expenditure Review,	
II: Transparency of public finances		World Bank Public Expenditure Review, IBP Open Budget Survey, GIFT, World Bank Gap Analysis, PETS	Incidence Analysis
III: Management of assets and liabilities	DeMPA, IMF PIMA		IMF PFRAM, World Bank State Owned Enterprise Risk Toolkit
IV: Policy-based fiscal strategy and budgeting	DeMPA, IMF PIMA	EITI, World Bank Gap Analysis	IMF PFRAM, Handbook Tax Simplification, Incidence Analysis
V: Predictability and control in budget execution	Tax Administration Diagnostic Assessment Tool, OECD/DAC MAPS	World Bank Public Expenditure Review, IAMTAX, OECD Tax, USAID Tax, EC Tax Blueprint, World Bank Tax Handbook, World Bank Revenue Administration, RA-FIT, RA-GAP, EITI, IA-CM, PETS	
VI: Accounting and reporting		World Bank Gap Analysis, PETS, IBP Open Budget Survey, EITI	
VII: External scrutiny and audit		IBP Open Budget Survey, GIFT, EITI, INTOSAI Capacity, AFROSAI-E Audit capability, World Bank Gap Analysis	
All		IMF Fiscal Transparency Evaluation, OECD Budget Governance, OECD BP data, SIGMA Principles of Public Administration, EC ECFIN OA, World Bank CPIA, World Bank RAAP, CIPFA, MiGestion, World Bank BOOST	Various multi-lateral and bilateral donors

From the table above we may conclude the following:

- There are four tools that can be clearly considered 'drill-down' from PEFA i.e. that they can be directly linked to (derived from) PEFA Performance Indicators and take the issues concerned to greater depth and detail. One may consider PETS as a drill-down tool as it could be linked to specific PEFA PIs but this would not fall under the aforementioned strict definition and would be open to judgement.

- Pillar V (Predictability and control in budget execution) of the PEFA Framework has the most tools fifteen (15) of which the topic of taxation and revenue administration (PEFA PIs 19 and 20) has the greatest concentration of tools nine (9) comprising of diagnostic tools, benchmarking guidelines, GAP analysis and data bases.
- Most of the broad based tools (10) can be considered complementary to or overlapping with PEFA depending on how one makes the judgment. For instance, the SIGMA Principles of Public Administration assessment has a section on PFM that covers to a great extent the same issues as PEFA.

Furthermore, it is worth noting that 11 tools have been developed since 2011, the year in which the last stocktaking review was commissioned by the PEFA Secretariat. The table below lists these new tools (three of which look at broad diagnostics and eight at subsystems).

Table 3 PFM Tools developed since 2011

PFM TOOL	YEAR LAUNCHED	ORGANISATION
GIFT (Global Initiative for Fiscal Transparency)	2012	NGO
IAMTAX (Integrated Assessment Model for Tax Administration)	2012	WB
TADAT (Tax Administration Diagnostic Tool)	2013	IMF
SIGMA PA (Principles of Public Administration)	2014	OECD
RA-FIT (Revenue Administration- Fiscal Information Toolkit)	2014	IMF
SOE Risk Toolkit (State Owned Enterprise – Corporate Governance and Risk Toolkit)	2014	WB
Budgetary Governance	2015	OECD
Tax Administration (Tax Administration 2015-Comparative information on OECD and other Advanced and Emerging Economies)	2015	OECD
RA-GAP (Revenue Administration Gap Analysis Program)	2015	IMF
PIMA (Public Investment Management Assessment)	2015	IMF
P-FRAM (Public Private Partnership Fiscal Risk Assessment Model)	2016	IMF

The following four tools have ceased being used since the Busam 2011 study, they have been largely replaced by other tools:

- World Bank Country Financial Accountability Assessment (CFAA)
- Commonwealth Secretariat PFM Self-Assessment Toolkit (CPFM-SAT)
- EC Assessment Reports on Public Expenditure Management, Public Financial Management and External Audit (Prepared by SIGMA) – replaced by OECD/SIGMA Principles of Public Administration
- Fiscal Transparency ROSC (IMF) – replaced by IMF Fiscal Transparency Evaluation.

PFM tools in a broader context

The *Strengthened Approach to Supporting Public Financial Management Reform* embodies three components agreed in the five high level meetings in Rome (2003), Paris (2005), Accra (2008), Busan (2011) and Mexico (2014):

- a country-led agenda; a government-led reform program for which analytical work, reform design, implementation and monitoring reflect country priorities and are integrated into governments' institutional structures;
- a coordinated program of support from donors and international finance institutions - in relation to both analytical work, reform financing and technical support for implementation;
- a shared information pool on public financial management - information on PFM systems and their performance which is commonly accepted by and shared among the stakeholders at country level, thus avoiding duplicative and inconsistent analytical work.

Public financial management advisors should continually bear these principles in mind and critically assess whether their recommended approaches are consistent with and facilitating their successful achievement. As it is there are considerable challenges in making effective use of all the available diagnostic tools, keeping in mind the time and financial resources a country can realistically devote to diagnostic assessments.

The risk of 'over diagnosis' and inefficiencies

The complexity of PFM raises the question of balancing the needs of donors, national governments and other stakeholders.

The number and diversity of tools creates the potential for inefficiencies and associated high transaction costs. The need to carry out multiple assessments can cause 'assessment fatigue' if not well coordinated, or where there are significant overlaps. Use of multiple public finance management diagnostic tools is like the complexity of a modern hospital which can identify the precise moment of death of a patient, but never-the-less fails to prevent this death and certainly does not cure the patient.

As the complexity and the number of tools increases the potential for choosing the appropriate tools also increases but so does the potential for choosing inappropriate tools or omitting some useful tools. The potential to use multiple tools at once where they are complementary should also be considered. For example if it is known certain subsystems need reform or upgrading (e.g. Debt Management; Tax Administration) they could be carried out at the same time as, or immediately following on from, broader diagnostic tools such as PEFA. The co-ordination with donors and governments is important to reduce not only transaction costs but also stop the danger of reforms being delayed by the timing of the diagnostics.

The Study notes continued developments in the number of diagnostic tools for PFM. In an early PEFA study in 2003, eight core diagnostic instruments were identified[3], despite what now appears to be a small number of such tools, the report still recommended that they should be streamlined. This 2003 study stated that:

> "The motivation for the establishment of PEFA was a concern that the various instruments developed by different development agencies for assessing public expenditure, procurement and financial accountability are insufficiently integrated, impose unnecessarily heavy transaction and compliance costs on the recipient governments, and may be on a divergent course." (page 1).

By 2011, thirty eight (38) tools were identified and we have identified a net increase of seven tools over the last five years. It could still be argued that there are areas of PFM that do not have their own tools, so it has been suggested that these could include extra-budgetary operations, asset management, strategic planning-budgeting links, HR/payroll control and legislative oversight of the budget process. However there is a danger that trying to replace professional judgement with additional diagnostic tools will further add to the risks of over-diagnosis which we raise above.

Here are many aspects of the PFM system where professional judgement, either country specific or very technical in nature, is more appropriate and cannot be substituted by a more generic tool. The many variables may be indicated via narrative tools, or where the explanation of scores has been derived in scoring tools that identify areas for further investigation.

The development and use of diagnostic tools should be cost effective in terms of value added against the cost in time and resources of all stakeholders. Whilst gaps will be identified in those very complex and technical areas, it is our view that the current forty five (45) diagnostic tools covering PFM are such that there are no significant gaps in identifying the performance of a PFM system.

[3] World Bank's Public Expenditure Review (PER), Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment Report (CPAR); the IMF's Report on the Observance of Standards and Codes of Fiscal Transparency (Fiscal ROSC); the IMF/World Bank HIPC Public Expenditure Tracking Assessment and Action Plan (HIPC AAP); the European Commission's work on assessment and audit of public financial management systems; and UK DFID's approach to assessing fiduciary risk.

Diagnostic results should not dictate the reform agenda

The tools should be informative and not judgemental so that they do not create obstacles to a country owned and led reform process agreed and supported where appropriate with donors. Once a reform approach has been agreed between the stakeholders more specific measures can be designed in donor agreements. As ODI (Overseas Development Institute) (2016) noted "Despite guidance from its Secretariat [2016 PEFA Framework, page 4], PEFA ratings continue to be used as an end in themselves – to determine what systems should look like." (page 3). Also, "PEFA ratings should be just one input in any reform process. More could be done to interpret which ratings matter in each national context, and why." (page 3).

The study highlights that there are a range tools available to allow reform strategies to be developed, but no tool on its own can hope to provide sufficient information to develop a reform strategy and above all there is no one best method or tool.

Public finance management assessments need to be managed by countries

As more tools adopt a scoring methodology this generates a greater focus on scores. The reason why the tools are adopting a scoring methodology would require research with the designers of the diagnostic tools. It follows from the arguments made above that the plethora of diagnostic tools is likely to contribute to the continuation of the trend to focus purely on scores unless there is a way to communicate to governments the options available and advantages of undertaking broad and/or specific diagnostic assessments. This should be done in a user friendly and practical manner and should not be accompanied by donor pressure or programme conditionality. This study contributes to that knowledge base.

Where does PEFA find itself in the current plethora of diagnostic tools?

The PEFA Framework has maintained its position as the most commonly used instrument for assessing the quality of public finance management.

One of the aims of the PEFA programme has been to try and reduce the number of assessments tools, and whilst four (4) tools are no longer used, eleven (11) new tools have been developed since 2011 (all but one by the three international bodies, IMF (5), OECD (3) and World Bank (2). Further research would be necessary to identify the reasons for the further increase in diagnostic tools). Nevertheless, the study highlights that the PEFA is the most widely used diagnostic tool covering the whole of the PFM system. The 2016 PEFA upgraded Framework addresses many of the weaknesses identified in the earlier versions.

PEFA is useful as a reference point for assessing performance that can be undertaken on a regular basis to measure changes over time on the overall performance of the PFM system. It should be used in conjunction with or as a precursor to other tools. Continuing the medical analogy, the PEFA may be seen as a general medic who directs the patient to a specialist clinic for further examination and treatment. The PEFA does not identify the treatment or the causes of the problem, it does highlight the symptoms in detail and if and where further examinations should take place.

The PEFA assessment is a tool specifically aimed at supporting dialogue between national governments and donor organisations and is not intended to identify all facets of desirable characteristics of good PFM systems and the use of specialist tools for those characteristics (such as Transparency) can complement PEFA.

To answer the question are we

"Living up to the Busan Partnership for effective development co-operation? Assessing Government Financial Systems"

There has been a major effort to develop diagnostic tools that meet the partnership agreements. Five years after the agreement some development partners are still strongly in favour of the use of country systems and the use of general budget support. However the UK has stopped using general budget support, deciding o return to a more focussed approach. So despite some concerns in broad terms the development partners have adopted the spirit of the agreement and made a major move to achieving the targets set out at Busan in 2011.

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